Community Development Financial Institutions Fund
Department of the Treasury

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It gives me great pleasure to be here to represent the CDFI Fund, as well as to bring you warm greetings from the Secretary of the Treasury, Paul O'Neill. On his behalf, I wanted to start by providing you an update on the current state of affairs at the United States Treasury:

As you know, President Bush fired the first shot in the war on terrorism weeks ago, when he ordered accounts of suspected terrorist blocked in the United States and spurred the entire world to act with unprecedented speed and cooperation to disrupt the financial underpinnings of terrorism. The United States Treasury has issued blocking orders on individuals, businesses, and charitable organizations known to funnel money to the al Qaeda terrorist network. US assets of all 22 of the FBI's Most Wanted Terrorists are now subject to this blocking order.

As you can see, The Treasury Department is actively engaged in the fight on terrorism. As you probably know, the CDFI Fund is a wholly owned government corporation placed within the Department of Treasury. The Treasury Department's role is to promote a stable economy and manage the government's finances. The Treasury family of agencies includes the OCC, OTS and IRS to name a few.

- The Fund is safely secured at the Department of Treasury, and has received broad support for the work we undertake. As of today, the FY 2002 budget is still under consideration. A Conference Committee will reconcile the budgets presented by Administration, the House and Senate. I wanted to thank all of you for the support of the Fund. The cards and letters sent requesting an increased appropriation demonstrates the importance of the Fund to your operations. Your input and support is really appreciated.
- Treasury has proposed a legislative fix to keep the Fund permanently within Treasury. This action follows Secretary O'Neill's review of the Fund and discussion of its proper location within the Federal government.
- And I wanted to extend a special thanks to Mark Pinsky for his help and advice as I am becoming oriented to this new position. Your ear and your counsel, your "sounding board" skills, have been immensely valuable to me.
- Too, I want to recognize the CDFI Staff present this evening, and thank you as well for all the hard work and dedication that has been apparent to me as I have taken on my new responsibilities. For you in the audience (please stand), they are here to help field your questions about Fund operations and processes as we move through this conference.

The Fund's History and Impact

Let me repeat that I am excited to be here, and honored to be selected as your guest speaker tonight. It's great to be here in Memphis, because NCCA-member organizations comprise one hotbed of CDFI activity! NCCA members have been a churn of CDFI activity! Here are a few facts and figures:

- 49% of the total awards made by the CDFI Fund through year 2001 or about $168 million have been awarded to NCCA members. Primarily these were Core awards with some TA and SECA awards as well.
- And did you realize that 85% of NCCA members have received awards?

I think that these figures add up to an exemplary demonstration of what is achievable under the CDFI programs. But most importantly it is a testament to your performance: with 52 organizations reporting, NCCA's annual report stated that CDFIs provided $1.9 billion in cumulative financing; and $839 million in loans outstanding. What's equally impressive is the loan quality of your members that reported a 90-day delinquency rate of 1.7%. Please accept my congratulations and commendation for these great accomplishments!

With the recently announced 2001 awards, the Fund has made over 1,200 awards for $530 million. The breakdown in funding for the past three years for the Core, SECA, and former TA programs, provides an interesting analysis of where CDFIs have focused:

- 31% groups that are involved in affordable housing financing
- 46% microenterprise, small business lending, and business loan funds
- 16% community development credit unions
- 4% community development venture capital funds
- 2% holding companies, and
- 1% in active multi-banks.

We are certainly proud of our progress and I know you must wonder, where does the Fund go from here? Can we give you more money? Will there be a reduction in BEA spending? What is the Fund's business plan?

Mission, Vision and Priorities

What is our mission and how do we know when that mission is accomplished? At the Fund, we have jokingly called this the "Peter Principle," named for the Undersecretary of Domestic Finance, Peter Fisher, who has asked these important questions:

1. Why has the market failed in CDFI communities?
2. How do we know that access to capital is unavailable or inadequate in these areas?
3. What is the appropriate level of intervention in an underserved community?

4. When does the CDFI Fund determine that it has achieved its goals in a particular market, region or in support of a CDFI?

We are addressing Main Treasury's inquiry through our mission and goal-setting process. First, let me share our mission:

> "To expand the capacity of financial institutions to provide capital, credit and financial services in underserved markets."

We believe that our success towards this mission will be achieved when "America is a place in which all people have adequate access to affordable credit, capital and financial services." At the Fund, we are currently assessing our performance relative to this mission. I would like to spend a few minutes with you sharing our priorities for fiscal year 2002 through 2004 relative to our mission.

What do we mean in the mission: "To expand the capacity of financial institutions…?" What does this mean for the Fund? To be true to our mission, it means being organized to meet the demands of a growing community development financing industry. We have adopted the following initiatives:

1. Provide quicker award decisions and reduced paperwork burden to CDFIs:

    - NoFAD (from NOFA to Disbursement) Initiative: Process re-engineering is being undertaken in order to

    - Provide same-year funding, and

    - Eliminate the competitive nature of Technical Assistance awards: Need help, we have money, apply, you get it! We are studying whether or not the TA process needs to be tied to the competitive bid cycle.

2. Upgrade our technology at the Fund, in order to support

    - Quicker funding processes (like online applications)
    - Streamlining and consolidation of reports, allowing you to send us one set of documentation for reports for multiple awards received.
    - Establishing a way for CDFIs to download loan data so we can aggregate this information to report community impact.
    - Enhanced interactive capabilities between the Fund and you, the awardees---for example, you would be able to make address changes, Board member changes, etc., on-line.

We hope to achieve these upgrades by FY 2004.

3. To be true to our mission, we need to be accountable to you, the customer and to know the market. We are presently staffed by program cycle, which I call staffing by mobilization – people and resources are moved around to complete program cycles. Applications received for certifications are completed in our spare time. The problem, however, is that with the Fund's increasing demand, we no longer have periods of down time. This issue can worsen when you consider the fact that we need to integrate New Markets Tax Credit within our existing framework. Therefore, or new staffing model under consider must achieve the following:

- Awardees would interact with the same analyst from certification, application to funding – Do you know who to call for questions, problem resolutions? In other words, who is your account executive or sales rep at the Fund?

- Staff assignments by region so we can better understand where critically underserved areas are located and work with you to gain a better knowledge of local economic conditions.

- Invest in staff training to enhance our own community development finance and credit risk assessment expertise.

In our mission, we seek to expand the capacity of financial institutions to provide capital, credit and financial services in underserved markets. The key buzzwords to remember are: "capital, credit and financial services in underserved markets." What's your takeaway on this?

This is the part of our mission that ties in perfectly with the Treasury Department's responsibility in promoting a stable economy. The Fund's goals in our first six years have been focused on creating and expanding diverse CDFIs --- one, by providing incentives to traditional banks and thrifts through the BEA program. Two, we have made $355.7 million (about 67% of our funding) in capital available to CDFIs through our SECA and CORE program to help institutions that serve distressed communities and low-income individuals.

We are introducing two great new programs this year:

1. **NACTA – Native American CDFI Technical Assistance -** This is a really unique technical assistance program that will provide the chance to build capacity for long-time underserved, Native American communities. Our goal is to help build CDFIs that can get into these highly distressed communities.

2. **NMTC – New Markets Tax Credit -** As a result of the Community Renewal Tax Relief Act of 2000,

- The New Markets Tax Credit Program is designed to help spur economic growth in new markets in urban and rural communities across the country.
- Individual or corporate investors can receive a NMTC worth more than 30% of the invested amount over the life of the credit (in present terms).

- Investors need to make their investments in an eligible "community development entity" or CDE, as certified by the CDFI Fund.
- $15 billion in tax incentives will be available.

I hope you feel, as we do, that NMTC will be the single-most powerful tool to come along in the Community Development field to aid in the attraction of billions of dollars into areas of our country where disinvestments and disenchantment with the economy have too long been the norm. NMTC offers us this tremendous chance to focus on these communities.

Roll out of this program will begin in late November. We anticipate that the IRS will release its rulemaking guidelines in January. It is our goal to review, approve, and announce tax credit allocations in the same year – Yes, FY 2002.

In concluding on the priorities relative to our mission, let's put all of this in context within the meaning of underserved markets. At the end of the day, the quarter, the year…Have we answered the overwhelming public policy questions:

1. Why has the market failed in CDFI communities?
2. How do we know that access to capital is unavailable or inadequate in these areas?
3. What is the appropriate level of intervention in an underserved community?
4. When does the CDFI Fund determine that it has achieved its goals in a particular market, region or support of a CDFI?

This is the area where Secretary O'Neill is asking us to measure the impact the Fund, and you, as CDFIs, have in the community. This is likely the area where your investors are asking you to demonstrate impact, need, performance and sustainability. This is the area where we need to turn our focus.

As you know, regulatory agencies are beginning a review of the Community Reinvestment Act. They were seeking public comment on a wide range of questions as part of their review. The comment period ended on October 17, 2001. The fundamental issue for consideration is whether any change to the regulation would be beneficial or is warranted. I share this information with you because of the clear correlation between the performance of CDFIs and the benefits or impact of this performance to the CRA evaluation, income statement or balance sheet of your traditional bank and thrift investors.

Today, more than ever, it is increasingly important for us to remain focused on community impact, profitability and self-sufficiency. You likely reviewed the Federal Reserve Board's assessment of the performance and profitability of CRA related lending activities. The Fed was directed to conduct this by the Gramm-Leach-Bliley Act of 1999.

The Board conducted a survey of 500 of the largest retail banking institutions in the nation. The survey gathered information in four loan product areas: 1) home purchase and refinance lending; 2) home improvement lending; 3) small business lending; and 4) community development lending. The survey also asked about special programs established by institutions to promote CRA lending.

I won't bore you with the details of the numbers but the essence of the results was that CRA loans were at least profitable or marginally profitable to the institution's overall portfolio with differing degrees of variance. The point I wish to make is simply this: there are high level probes in government seeking to understand our business, its impact and sustainability. It is imperative for us to build and agree on the best macro-tools for measuring our own successes and failures. How well we do this is a collaboration that must occur between local entities such as those you represent, the many partners you bring to the table, and the CDFI Fund. For our part, I pledge that the Fund and its staff should be viewed as your partners: aggressively responsive to your needs and those of the end customers.

As the new director of the Fund, we desire to work closely with you in strengthening this partnership. We understand that there are several stories to tell, yet we can't forget to tell the most important one, the human interest story. Like,

> **The Self-Help Story:** in which a real estate program and small business loan program helped to spark a downtown revolution**.**
>
> **Or, Your Story:** Where large numbers of CDFIs are providing loans in areas underserved with first-time home mortgages, or new construction in areas where the last new house may have been built over 50 years ago**.**
>
> **Or my story, the Tony Brown Story:** Where I witnessed my grandmother working from sunup to sundown to provide a decent home for her sister's children, her grandchildren, and her great grandchildren.
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> My grandmother worked hard to move us out of the projects where she bought one run-down home, fixed it up, and sold it, only to buy a larger old home, fix it up and sell it again. We were moving on up…U-Haul and all! In terms of lifestyle, I moved from the projects, to a room the size of a closet. And then by the time I got to college, my grandmother's proceeds from these home sales allowed me to occupy the attic in our last home before college **---** it was laid out: bedroom and living room, with all the latest electronics!
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> I learned community development from the best: a hard working lady who only sought the best for her family. There was no CRA. No special loan programs, just the desire to put a decent roof over the heads of her children and grandchildren. She found value in properties neglected, just like you find value in communities neglected.
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> That's my story. No number can tell that story. The boy from Ohio who grew up in the projects, moved from one low income area to another, became a senior vice president for one of the nation's largest banks, and finally, was named by the President of the United States to run the nation's community development fund.

I pledge my commitment, dedication and hard work that together we can make the CDFI Fund one of the Nation's most successful Federal programs. Our proof won't just be in the numbers. Our proof will be in the lives of the people and the communities we enrich. It my great honor to serve as director of the CDFI Fund, and I look forward to working closely with you in the months to come.

Thank you very much!